# PureGym Q1 Results Call

Conference call Wednesday 19th May 2021

Humphrey Cobbold (CEO):

Good morning, everybody. Welcome to the presentation of our results for the first quarter of 2021. Today we'll be running through the presentation that was posted on our website at 7:00 a.m. this morning, dated 19th May 2021. So, our assumption is that you will have this in front of you and we'll guide you to the page references as we go through the document. As I mentioned in last month's announcements of our year end results, this presentation will cover off the quarter ended March 2021, and we'll also provide you with a bit of an update since reopening. I'd like to turn to slide three for an overview of the period and where things stand. All our gyms across the group are now once again safely opened. The U.K. opened in April and early May, Switzerland on the 19th of April, and Denmark on the 6th of May.

These openings reflect, as you well know, the excellent progress in the U.K. on vaccination and case load reduction and steady progress on that front in Denmark and Switzerland. Of course, we're watching the situation carefully in all markets, and especially the situation around the Indian variant, but for the time being at least, we're not seeing any causes for alarm. However, our financial results for the first quarter predate these reopenings and were therefore materially adversely impacted by COVID-19 and Alex will be updating you on that impact shortly. Despite this, and as we discussed last month, we're pleased with how the management team handled the lockdown period and the exit from it. We demonstrated excellent cash control and operational management during this quarter of lockdown, which was clearly a very challenging period for us. And from a cash and liquidity perspective, we closed the first quarter with £231 million available of available liquidity, having raised an additional 45 million Euro bond in March.

Turning to our reopening, as we said to you at the full year results, the early indicators have been more than satisfactory. We are pleased that since the reopening we've gained a net 170,000 members to take us to a total of 1.55 million members as of the end of 9th of May. The fact that like for like member numbers and visits are recovering faster than after the first lockdown, along with the fact that our 11 new sites are in general performing well means that we remain very positive about the post-COVID-19 outlook for the business. And as we've sign posted previously, we continue to believe that overall market dynamics, plus a combination of favorable demand outlook, combined with a degree of supply tightening bode well for the PureGym group, and they support our optimistic perspectives for the future.

So, with that summary, let me hand you over to Alex to take you through the financial situation and results for Q1.

Alex Wood (CFO):

Thank you, Humphrey, and good morning everyone. I'm going to take you through the financial results for the first quarter, as well as the very latest liquidity position. So, let me start with the

latter of those, an update on cash and liquidity, and that's over on page five of the presentation. So, here I set out our cash and liquidity evolution from the year end position on the left-hand side over the first quarter to the end of March in the middle of the graph. Many of you will find this picture familiar because we provided a preview of this during our full year results presentation last month, so I won't repeat all of the detail again now, but in overview we closed quarter one, 2021 with £231 million of available liquidity, which comprised £86 million in cash on the balance sheet and a £145 million undrawn revolving credit facility. This is clearly a very healthy position, being only a shade lower than December 2020's position of £236 million, despite lockdown three.

Our operational cash burn was 20 percent better than our previously communicated target and 40 percent better than we achieved in lockdown one and this cash burn was largely replaced by fundraising activity, as indicated by the green blocks on the bridge. Firstly, proceeds from a property lease surrender on the one hand and proceeds from a 45 million Euro bond tap following a reverse enquiry on the other hand. I've also provided an update of the liquidity position as at the end of April on the right-hand side of the page, which closed at £226 million, and as you can see, during April, the overall cash burn has significantly reduced, and this is, of course, helped by the U.K. reopening on the 12th of April. You'll also note that within this we repaid £4 million of deferred payments and that balance is now standing at £37 million on a net basis. There were no bond interest payments due in April, but nonetheless, I thought you would find it very useful to see the positive impact that even a part-month's reopening has had on our cash flow.

We also deployed £4 million of carefully judged capital investment in the months, and I'll touch on this later, but we're being very measured with capital investment to make sure that we keep sufficient liquidity to protect us from the unexpected. You can see from the April closing position on the right-hand side of this page, that we remain incredibly well protected in that regard. So having covered off the latest cash flow and liquidity position, let's move on to the results for the quarter, over onto page six, please. As you know, we were unable to operate our gyms in the first quarter of 2021 and the results were materially impacted as expected. Without being able to open, we received zero revenue, and this resulted in a £25 million loss at an adjusted EBITDA level. I'm not planning to add much more to that, actually having already covered the cash burn performance and liquidity elements in quite some detail previously at our year end presentation last month. I will provide a little more detail on capex and net debt in a moment, but before we move off this slide, I'd just like to take the opportunity to cover off a few points of order in relation to our reporting set up for this year, as this is the first results of the new financial year.

Let's start with comparators, please. You'll see that we are showing both 2020 and 2019 comparators on this page, and that is by design to give you the best and most objective view on performance as we move through the year. You'll note that quarter one 2020's results were, of course, also impacted by lockdown one, which began part way through March of that year and therefore provide limited insight into the true underlying performance of the business when trading. And therefore, we've also included the 2019 comparators which are, where relevant, pro forma for the acquisition of Fitness World. And these are much more useful because they do give a benchmark in relation to the underlying scale and operating performance of the group when it's

allowed to open and trade without encumbrance. So, just to illustrate, over on the bottom right-hand side of this page you can see that despite the operating cash flow loss in this quarter, in more normal conditions, the business would generate around £25 million of operating cash flow per quarter, or about £100 million a year from which to service interest, repay debt, or provide capacity for further investment.

The second point I wanted to bring to your attention was how we are dealing with deferred rent in our reporting. As you know, we have been very transparent about the level of deferred payments and those include deferred rent that we have outstanding and will continue to be so. Having a large number of rental balances outstanding is an unusual situation and as the business recovers, we don't want the profit and loss results to be distorted by the timings of either the benefit of any deferred rental deals or the settlement of those deferred balances. And so, we're going to exclude the impact of deferred rent movements, either positive or negative, from the cash rent adjustment and, in this way, adjusted EBITDA won't be skewed by deferred rent movements. This treatment is in line with peers, such as The Gym Group, who are also stating adjusted EBITDA normalised for the impact of rent deferments. There's nothing to be concerned about here; it's simply the best way to deal with an unusual situation, avoiding distortions in EBITDA and better reflecting the underlying position.

We will continue to be very transparent about the level of deferred payments, of course, and the cash flow impact of those movements is included in the cash flow statements.

Let me now move on to page seven please, to quickly touch on capital expenditure in the quarter. Capital expenditure was reduced by around 50 percent versus the prior year, with maintenance and refurbishment spend minimised during the lockdown quarter for obvious reasons, but you can see that expansionary capex did continue to some degree despite the lockdown. Mainly comprising investments to complete 11 new sites, 10 of which sat in the U.K. and one in Switzerland; all opened successfully in April. As I mentioned earlier, we've continued with measured and disciplined deployment of capital into high quality new sites whilst all the time ensuring that we maintain sufficient liquidity reserves to protect against the unexpected, and we feel that this is in the interest of all stakeholders to continue to move the business forward in a measured and calculated way.

Okay, and finally let me complete the first quarter's financial update by taking you through our net debt position, which is over on page eight please. This is the same set of summary datapoints that we have presented before but updated for the latest quarter one 2021 position with the historical track record of deleveraging on the left-hand side for your reference, our latest net debt position with all of its constituent parts on the right-hand side, and in the middle of the page, a comparison of the quarter one 2021 position versus December 2019, i.e., pre-COVID. You can see that whilst our available liquidity is still materially better than pre-COVID, our senior secured net debt was £778 million as at the end of the quarter, which is £33 million higher than pre-COVID. And as I flagged last month, our net debt position is starting to reflect the impact of COVID-19 closures, reflecting the fact that we've raised a further 45 million Euro bond debt on the one hand, which

has effectively offset the cash burn in the quarter one 2021 closure, and we still have deferred payments outstanding on the other hand. Now, this latter point is a reminder that whilst we are thankful of course now to be open and trading, the COVID closure period has been incredibly painful for us and we continue to ask our landlords to share this burden with us. We think that is absolutely the right and proper situation under these circumstances.

So, look, in light of these factors, which I also mentioned last time we spoke, you should continue to expect net debt to rise in the near term whilst those landlord conversations are played through, whilst broader deferred payments unwind, and whilst our trading recovers. And, of course, I will update you further on this latest status in August when we update on our Q2 position. And just to reiterate, as I did last time, none of this should be the slightest cause for concerns of bond investors, we just want to continue to be super transparent here. And with that, I shall now pass back to Humphrey to talk through the latest on our reopening post quarter end. Over to you, Humphrey.

Humphrey Cobbold (CEO):
Thank you, Alex, and thanks again for all the work that you and the finance team do in navigating what's been some very choppy waters for any business and for us in particular over the last few months. I'm now going to update you on our position since reopening our gyms. We're providing more information here than we do normally, but we wanted to continue, as Alex has said, the high level of transparency with you as we reopen and hopefully find our way out of this pandemic situation. The information is very current and unaudited, so please treat it as such as you consider this data. Let's turn first to page 10. On the right-hand side of page 10, we've set out total member numbers across the group at the end of December 2019 and benchmarked that against December 2020, March 2021, and the latest available data, which we've set at the end of 9th May 2021, on the far right-hand side. As a reminder, we only lost 87,000 members during the Q1 2021 lockdown, and as the end of Q1 2021 our membership stood at 1.4 million, 82 percent of the number of members at December 2019.

Our U.K. reopening went well, as I will expand on shortly, and our Swiss reopening was also a success and very early signs from the Danish reopening on the 6th of May are also positive. Of course, because we're talking about the 9th of May data, we're only really including three days of trading from Denmark in that time period. Overall membership has grown by 170,000 to 1.55 million across the group as of 9th May, which is 91 percent of the December 2019 position, so we're getting back to that level. Of course, we want to grow beyond that level because we have more sites open now than we had then, but still, that's an indicator of the progress that we're aiming to make.

Let's go into this in a little bit more detail on page 11 by walking you through some early results from the English gyms. In summary we would say recovery in England, for which all the signs are very representative of the U.K. as a whole and progressively of Europe as well, indicate a stronger and faster recovery versus what took place after lockdown one. These English gyms have been open for the longest, reopening on the 12th of April. As you'll be aware, Scotland, Northern

Ireland, and Wales opened later in the month or even in early May. As a result England provides a solid like-for-like dataset and a sense of progression with us, being able to include around four weeks of data. And that's why we selected these for analysis. As you can see, over on the top left of slide 11, we started from a lower underlying paying base at 66 percent of the 2019 like for like level, versus 75 percent after lockdown one. This lower starting point was just the cumulative impact of three lockdowns, building up over time. The paying base increased four points during the reopening period and our membership rose up to 70 percent by the time of the actual opening day on the 12th of April.

On the top right-hand side of the page, we show that the recovery and demand has been strong and indeed has been stronger than the reopening after lockdown one. The like for like paying base has increased by 10 percentage points since reopening, versus four percentage points over the same time period after lockdown one and the average numbers of joiners per club per day over the first four weeks is almost double that during the same period after lockdown one. In the bottom left-hand corner of this page, we highlight that member confidence appears higher this time around as well, fewer members remain frozen after 28 days, a key indication in our minds of what we would call member hesitancy, as it has taken only 14 days to add five percent to the like for like pay base after the most recent lockdown versus 30 days last time after lockdown one.

Looking lastly to the bottom right-hand corner on page 11, the joiner mix is also what we'd regard as being very healthy, with a diverse and well-balanced range of ages and also strong new joiners, both broadly comparable to 2019 on a like for like basis. So, while we have a lot more work to do, we are satisfied, indeed very satisfied, by the initial progress on member recovery. And this is really testament to an immense amount of work that's been done by colleagues across the entire business. Our operational teams have been fantastic; our marketing teams have done a great job in reaching out into communities, and the effort that everybody has put in has really been quite exemplary.

Turning to page 12 we are also heartened by the levels of activity and membership satisfaction scores that we've been achieving. Starting at the top left of page 12, we can see that like for like visits are almost at the same level as pre-pandemic and much higher than in lockdown one. And this is despite us having fewer members than previously. To be absolutely clear, visits does not equal revenue in our “pay per month” model, we've still got a long way to go to rebuild revenues. But and this is an important but, visits do represent underlying strength of demand and that is a precursor to rising revenues as demand normalises. It's a matter of arithmetic, essentially, to conclude that on the top right-hand side of this page that the number of visits per member is much higher than in lockdown one. And then coming out of lockdown one is actually at 1.43 visits per week, versus a level of 1.21 in 2019. That's an 18 percent increase and demonstrates, once again, the strength of underlying demand for the products and services we provide. Overall, our member feedback has been overwhelmingly positive and you can see that in the bottom right-hand chart, the higher level of satisfaction across a number of key metrics and the overall feedback on the left-hand side is still very positive; 2021 and 2020 illustrated there.

Summarising this, all these indicators provide confidence in the level of underlying demand from our existing, and importantly, new members, (remember, we've got many new members coming into the clubs) and the quality of the experience we're offering, despite the challenge of the COVID restrictions that we face. Once again, I think that this is a genuine testament to the incredibly hard work that our 3,000 or so people who work in our facilities, day in and day out, across the estate, have done over the last few weeks.

Turning to Page 13, we also have another powerful indicator of the strength in demand, and that is the performance of the new sites that we opened in April. As you can see from the chart on the right, member levels of our 10 new U.K. gyms, versus pre-COVID member feasibility ramp curves. In general, they are tracking in line or even ahead of our modeled curves, providing us with confidence that the underlying member appetite, for the offer we provide, which is a flexible, affordable, and high-quality gym environment, continues to be strong even in markets where we have not been present before. And we're seeing some really striking examples of markets which are completely new to us, where we're seeing high levels of sign-up, even before opening. And that's very refreshing to see.

These results are particularly comforting, considering that they were achieved despite limited pre-marketing activity. You can't really drive a lot of joiners to gyms while they're still closed and especially when people haven't seen the new gym. And they give us confidence that the latent demand continues to exist for our product, right across the U.K.

Now, let me just conclude by making a few points on our strategic outlook, which starts on Page 15. We've used this slide before and I make no apologies for that, but I won't repeat comments made previously. Let me pick out a couple of key points. Suffice to say that as we look ahead, we remain optimistic about our future, despite the challenges of the present. I think it's fair to say that, along with other operators, we have managed ourselves well in all areas: cost management, member retentions, crucially in terms of safety and responding to the concerns of our membership. And that sets us up well for the next phase of the market's development, because our brand and the appreciation of what we do is coming through this situation very strongly and in a very positive light.

I think I've already highlighted the empirical evidence for robust demand and it is already evident, even though many people have not yet been vaccinated and still feel pretty vulnerable out there. When you combine that picture of demand with the fact that we are seeing a tightening on the supply side here, we're seeing, as we've noted before, rationalisation and closure in all of our markets across Europe, you can see why we believe that this offers a positive medium-term to longer-term outlook for the PureGym group. I'll talk a little bit more about the implications of this for pricing, specifically, in a moment.

And there's been a rise in digital connections and offerings, of course, and we've been more than active in this area. We're already at the forefront of using digital trends that have transformed engagement with members inside and outside our gym. The advantage in digital will clearly accrue

to larger operators who can afford the necessary investments and we'll certainly be investing further in that in the future.

So, with this overall backdrop in mind, I want to zero in a little bit on the question and the issue of pricing, moving on to Page 16. As outlined above, we believe that the robust underlying demand, coupled with supply-side evolution and the overall macro situation, creates favorable conditions for prices and price increases in the future. Starting on the left-hand side of this page, it's already clear that price rises are occurring across a variety of sectors and industries and it's something that people are both expecting and increasingly, if somewhat begrudgingly to be honest, accepting. Let's face it, who hasn't opened a letter or email from Spotify, Netflix, Sky, Virgin, or BT explaining that prices are going up? And many of us will have noticed that the Twix that we used to eat is smaller than it used to be, another form of price increase. And across many sectors, we're seeing this.

Our pricing activity has previously focused typically on new joiners. We changed prices, the headline prices for gyms, in that regard. But increasingly, we're looking at modest increases for existing members. And indeed, we've done some early trials of this and are seeing this as relatively low risk. Changing headline price is not our only route to capturing a little more value from members, pricing is a multi-faceted equation in our business.

We also see that our members are willing to pay more for bolt-ons, as I explain in the second box on this page. We use a number of these, including an overall premium membership, multi-gym use, priority class booking and a hydration bolt-on, which is successful. And we're seeing, in some markets, very strong penetration of these. For example, where we're seeing 35 to 45 percent penetration of these self-selected premiumisation on prices. So, that's a very positive aspect.

Coming to the third block on this page, you may remember that we don't look at pricing nationally, we don’t have a national price. We don’t tie ourselves to an individual number. We've always promised great value, but we retain the flexibility to tailor pricing to individual clubs, varying by location, and reflect the strength of demand and competitive intensity in our decisions. This is very important, we believe. The slightly fuzzy graph you can see in this block on the page shows the range of prices within and across different site types in the U.K. And it shows you, in essence, that we offer the same product at fairly different prices across the country, reflecting the differences of those markets. And that allows us to capture volume in some markets, and capture yield in other markets.

We're actively introducing this variable pricing and price management capability into both Denmark and Switzerland. That was a core part of the thesis of the acquisition of the Fitness World Group, you'll remember that from the statements that we've made previously. This is beginning to take root in those markets and that will give us opportunities to both increase prices and, in some cases, reduce prices, in order to drive greater volumes where we've got the capacity to serve those volumes. So, it's a multi-faceted equation.

The final component of pricing on the right-hand side of this page is promotion. We increasingly take a very sophisticated approach to tailoring our promotional marketing, with short, sharp campaigns and we maintain discipline to drive yield and not to waste promotional investment. These are techniques and skills honed very tightly in fast-moving consumer goods and other retail environments and we're applying those to the fitness and gym industry.

Why do I spend time on this and why did I think this is important for you as our investors to understand? Well, for the simple reason that after volume of members, pricing and price management is the most important performance lever that we have. We are an operationally geared business where marginal revenue drops straight through to marginal profits and cash flow. Against a backdrop of healthy demand recovery, coupled with some supply consolidation and restriction, we believe that there will be an opportunity for us and other market participants to capture value from some of the pricing headroom that supply/demand balance creates. I wanted to illustrate that we have the skills, the capabilities and the focus to do this in a targeted manner and we'll certainly be focusing more attention on this in the future. So, that's why I've taken some time to explain this position today.

And so, to conclude, let's move on to Slide 18. Our Q1-2021 results have, of course, been materially and adversely impacted by COVID-19. How could it be otherwise, with us being forced to close through the whole quarter? We nevertheless have an excellent liquidity position, with £226 million available as of the end of April, after our successful bond tap. We're well-prepared to deal with any further challenges that the pandemic sends in our direction and to take advantage of opportunities for the future.

Post quarter one, we've endured a successful reopening of the group, and we're really pleased that all our gyms are now back to trading. Membership has grown by 170,000, to 1.55 million, as of the 9th of May. Promisingly, like for like members and visits are recovering quicker and with more strength than after the first lockdown. We are pleased to have opened 11 new sites in April alone, 10 in the U.K. and one in Switzerland, all of which are performing well and validating our sense of the underlying demand for our product. And finally, favorable market dynamics continue to fuel an optimistic post-COVID-19 outlook and have potentially positive implications for pricing.

So, thank you very much for your continued patience and support. As I've said before, I know that this has not been an easy period for many of you, as it has not been for us, and we're really very grateful for your support. We're continuing to work hard to ensure that we deliver and surpass your expectations of us. Our next update will be in August, for the Q2 results. And with those comments, I'll conclude. And I say that I think, Katie, we're happy to take a few questions.